

## LUMP SUM NOTICE

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[Note to plan administrators and plan sponsors: This notice should be provided to participants a minimum of 90 days prior to the effective date of the risk transfer decision date along with the initial communications related to the transaction, but in a separate document.]

## YOUR RETIREMENT OPTIONS

### Overview

Your employer, [**Company Name**], is offering you the choice between keeping your current pension or receiving a one-time lump sum payment. The choice is up to you, and this notice is based on a model developed by the Department of Labor (DOL) to provide factual, unbiased information about that choice.

Here is the choice you are asked to make:

1. If you want to keep your pension, you do not need to take action at this time. In retirement, you will receive monthly income for the rest of your life (and your spouse's life if you are married); or
2. If you want to give up your pension, you can take your money out now in a lump sum. [**One sentence description of what the employee needs to do under this option, such as: To do so, you'll need to fill out a form that your employer provides.**] Note -- in many cases, a lump sum will not give you as much income for the rest of your life (and your spouse's life). [**Note to plan sponsors: it may be useful to include a Lifetime Income Estimator here. An example of such a calculator is shown in this hyperlink: <https://www1.cannex.com/scripts/c22484.asp>**]

The deadline for your decision is [**date**]. The rest of this notice provides additional information about these two options.

### Common questions

The following table answers common questions that people ask about receiving a one-time lump sum payment versus receiving a lifetime of payments from a pension.

	<b>Lifetime Pension Payments</b>	<b>Lump Sum</b>
Will I receive guaranteed income for the rest of my life?	Yes*	No, unless I buy an annuity**
What if I live longer than expected?	I will continue to receive my monthly income	I may run out of money
What happens if my company is not able to meet its pension promise?	Your pension payments are protected*	The lump sum you've already received is not affected
How is the money distributed?	In a series of lifetime monthly payments	All at once
Am I personally responsible for investing the money?	No	Yes
What if the market falls?	My monthly benefit is the same.*	I could end up with less money
Do I pay investment management fees?	No	Yes
What is taxed?	I am taxed as I receive my monthly income	I am taxed on the full lump sum unless I roll it over into an IRA or other qualified plan (IRA withdrawals are taxed when they occur)***
What if I have an urgent need for money?	You cannot take out your money	The lump sum may provide access to some money depending on how it was invested
If I die earlier than expected, can I leave anything for my spouse and children or charity?	Yes, if I chose a survivor benefit (but not to charity)	Only if there is unspent money when I die

\* Payments from your pension plan are backed by the assets in the plan, your employer, and the Pension Benefit Guaranty Corporation, subject to certain limits.

\*\* An annuity purchased in the insurance market will generally provide less income than your plan's pension.

\*\*\* See also IRS rules on required minimum distributions from an IRA when you are retired and past the age of 70 1/2.

## Which might be better for me?

One of the most common questions people ask, of course, is “which might be better for me?” While there are no blanket answers to that question, the following rules of thumb are useful places to start:

- If you do not have enough guaranteed income from other sources, such as Social Security and other pension plans or assets, to pay for your (and your spouse’s) costs in retirement (e.g. medical, housing, vacation, etc.) - then keeping your pension may be a good idea.
- If you already have more than enough money for retirement – then the lump sum may provide more flexibility, even though you could receive less money overall.
- If you or your spouse is likely to live longer than average - then a pension is generally better. The money from the lump sum can run out before you and your spouse die.
- If you or your spouse is uncomfortable making investment decisions or calculating complex financial models - then a lump sum may not be a good choice for you.
- If you are currently in a dire medical or other financial emergency - then a lump sum can help cover that emergency. However, once the lump sum is gone it will not help you if a future emergency arises.
- If both you and your spouse do not expect to live a long time - then the lump sum may be more valuable than the pension.
- If you are young and years away from being able to start receiving your pension and worried that inflation will decrease its value - then investing the lump sum might result in more income. However, you must be comfortable with managing your money over a long period of time, even when you are old.
- If your pension plan includes early retirement or spousal benefit subsidies and you were planning to take advantage of these features, but these are not included in the lump sum (see the answer to question 2 below under Additional Questions and Answers) - then your pension annuity may be more valuable to you than the lump sum.

Lump sum payments often *look* much larger than a pension. However, unless you meet the particular criteria described here, you could end up receiving less money in the long run.

## Detailed Information about This Choice

**1) A pension provides guaranteed lifetime income. With a lump sum, you may not be able to generate income for the rest of your life.**

The pension provided under your Plan is a monthly guaranteed paycheck to help you avoid running out of money before you (and your spouse) die. By choosing a lump sum, you are giving up that guaranteed lifetime income. To duplicate the pension payments on your own for the remainder of your life and your spouse’s life, you must be able to invest the lump sum to provide you and your spouse with equivalent lifetime income.

**2) It is difficult to invest the lump sum to provide equal lifetime income.**

Investing on your own is challenging, even if you work with a trusted financial advisor, and you might incur high fees. Have you or your spouse had any experience investing your money on your own? If not, do you want to start now? Your investment will go up and down with the market. Over your lifetime there will be good periods and bad periods. You have to be able to handle these bad times. Even if you are a good investor now, financial skills for many people deteriorate as they get older. If your spouse outlives you, will your spouse be able to handle the investments? And, don't forget that you also have to manage your investments so that you can take money out each month. If you take out too much, you will run out of money.

**3) You will want to make sure any advisor working with you has your best interests in mind.**

It is sometimes a good idea to work with a trusted financial advisor to help you make important decisions such as whether to take the lump sum or the pension, or how to invest any money that you have control over. If you use a financial advisor, you will want to understand how much they charge and whether they may have a conflict of interest. You may wish to review the Department of Labor proposed regulations on conflicts of interest of financial providers to participants who roll over lump sums to an Individual Retirement Account at:

<http://www.dol.gov/ebsa/newsroom/fsfiduciaryoutreachconsumers.html> .

*[Employer to provide details if independent financial advisors will be made available to participants to assist with issues related to making a decision].*

**4) Buying an annuity with the lump sum will likely be worth less than the plan's pension.**

Generally, payments from an annuity that you purchase on your own will be smaller than the annuity payment provided by the Plan. This is a complicated topic, but there are a number of reasons, which are summarized below. If you wish to make your own comparison between the pension and the annuity you might purchase, be careful to make an "apples to apples" comparison between the Plan's pension and the purchased annuity. The following link contains a tool which can be used to estimate the annuity you could purchase on your own: *[Employer to insert tool, such as the tool in this link <https://www1.cannex.com/scripts/c22484.asp>]*

- (a) The insurance company will charge a fee for an annuity you purchase on your own while there is no fee for the monthly benefit you would receive from the pension plan.
- (b) Insurers assume that people who purchase annuities are generally healthy and expect to live longer and the price of the annuity is increased to take this into account.
- (c) Women generally live longer than men, which will result in a more expensive annuity than the plan would provide.

**5) You may have to pay additional taxes if you take a lump sum**

You will have to pay taxes immediately (plus a 10% penalty the IRS levies on people younger than 59 1/2 who cash out retirement assets), unless you roll over the funds into an IRA or another qualified pension plan in compliance with IRS rules. In that case, you will be taxed when you later withdraw the funds from the new account. It is worth noting that rollovers can take two forms. In a direct rollover, the individual instructs the plan trustee to transfer funds directly to the IRA or qualified plan and the transaction is complete. With an indirect rollover, the individ-

ual receives a check from the plan trustee which has been reduced by a mandatory 20 percent federal withholding tax. In order to complete the rollover within the allowable 60 days, the individual must deposit into the IRA or qualified plan both the amount of the check received and the amount of the tax withholding. Individuals receive a refund of the 20 percent withholding when they subsequently file their tax return. If the individual does not fund the additional 20 percent from personal funds, he or she would owe tax on the 20 percent shortfall for the current tax year. You may wish to consult a financial advisor to discuss your specific tax situation. Guidance on the federal tax consequences of a lump sum distribution is provided in IRS Publication 575 titled "Pension and Annuity Income" (2014) which is available at: <http://www.irs.gov/pub/irs-pdf/p575.pdf>

#### **6) Taking a lump sum can have additional ramifications**

You may want to talk to your own professional advisor about the consequences of this decision (which can depend on your state or county). For example, if you roll over your lump sum to an IRA, it may not be protected from bankruptcy or your creditors anymore, while the pension was protected. In addition, state tax laws may tax lump sums, but not pension payments. Similarly, state law could prohibit you from receiving Medicaid, until you spend down a lump sum to a small amount.

## **Additional Questions and Answers about Your Pension**

### **1) What are my benefit options under the Plan?**

If you do not elect the lump sum, your benefit options under the Plan are [to be provided by the employer] [include earliest and Normal Retirement Age single life annuity and Qualified Joint and Survivor Annuity benefits].

### **2) Is the company offering a subsidy for early retirement and/or spousal benefits?**

A pension plan may include special subsidies to pay for spousal benefits or to encourage early retirement. These subsidies may not be included in the lump sum, lessening its value in comparison to a stream of payments from the pension. Your Plan [does/does not] provide a "subsidy" (a benefit of greater value) which [is/is not] included in the lump sum. [Employer to revise as needed].

### **3) How was my lump sum calculated?**

The lump sum amount represents the current value of your pension, based on certain assumptions. The lump sum is calculated by adding up the value of each monthly payment you would receive with the pension, based on the chances that you would live to receive that payment and an interest rate assumption. The assumptions used in calculating your lump sum comply with the minimum lump sum rules and are shown here: [Plan Sponsor to insert the mortality table used, the interest rates used, and the date of the interest rates in effect]. A lump sum may not be a "better deal" even if you believe that you can earn higher rates of return in the future than the interest rates used to calculate your lump sum. Even if you are able to generate high average returns over an extended period, your ability to have higher income over a lifetime relative to a

pension payment can still be challenging if markets are very choppy (i.e. lots of ups and downs) and/or you are fortunate to live longer than is typical.

**4) Is my pension insured and what level of benefits are protected?**

Your pension is guaranteed by your employer and backed by the assets in its pension fund. When a pension plan fails, the Pension Benefit Guaranty Corporation (PBGC) steps in and pays benefits, subject to limits set by law. Most people receive all, or close to all, of the benefits earned before the plan failed. Detailed information on the PBGC insurance program is available at the PBGC's website: <http://www.pbgc.gov/wr/benefits/guaranteed-benefits/maximum-guarantee.html>

**5) If I am still not sure what to do, where can I get additional help?**

You could seek the help of a financial advisor. The employer offering you this choice may be offering access to advisors to help you with your decision, or you may want to seek out additional help on your own. If you use a financial advisor, you will want to understand how much they charge and whether they may have a conflict of interest. You may wish to review the Department of Labor website at:

<http://www.dol.gov/ebsa/newsroom/fsfiduciaryoutreachconsumers.html>

**For more detailed information about risk transfer transactions, the 2015 Report of the ERISA Advisory Council on Risk Transfer Transactions, and the 2013 Report of the ERISA Advisory Council on Derisking Transactions are available to the public on the Council's website and the January 2015 Report of the U.S. Government Accountability Office (GAO) on Derisking which is available on the GAO website ([www.gao.gov](http://www.gao.gov))**